



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP
Eric M. Bledsoe, CPA • Jeffrey D. Hewett, CPA • Christopher P. Gullekson, CPA

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AUDIT REVIEW COPY

Enclosed please find:

1. A review copy of your 2019-20 fiscal year audit
2. Management letter with minor/other exceptions (or no exceptions)
3. Two-page disclosure letter that we are required to provide with your audit

REVIEW COPY-

Please review the audit report and contact our office if there are any changes that need to be made prior to us sending you the copies for your board presentation.

If the audit is acceptable, please contact our office and schedule the presentation of the audit to your board of education at an upcoming meeting. We should be available to do the presentation by phone or by video (Zoom) at your next meeting. If you require or prefer that we present the audit in person, this can also be scheduled, but we may need to find a date and time when an auditor is available.

MANAGEMENT LETTER-

If the audit report and/or management letter have any findings, they will require written corrective action, which will need to be submitted to the State Department of Education. The corrective action should just be a simple explanation of what happened, and how it will be corrected in the future by your office.

DISCLOSURE LETTER-

This letter requires no action on your part.

Respectfully,

Eric, Jeff & Chris



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December 23, 2020

Mr. Matt Wilson, Supt.
Sovereign Community School District
12600 N. Kelley Avenue
Oklahoma City, Oklahoma 73131

Dear Mr. Wilson

Listed below are control deficiencies and recommendations from the final audit work we performed for you. Any material weaknesses are listed within your audit report. Please review them very carefully, along with the review copy of your audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

The following section contains the significant deficiencies which will be included in your audit report as material weaknesses in internal controls and non-compliance with laws and regulations based on an audit of financial statements.

Segregation of Duties 2020-1

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions which is necessary in order to assure adequate internal accounting controls, specifically in the payroll, accounts payable, and treasurer areas. This is always an issue in small size school districts, especially in the areas of cash collections, disbursements and reconciliation.

Employment Contracts 2020-2

We observed during the audit that there were no contracts prepared for administrative or support personnel as none were presented for audit. We recommend that contracts be prepared for all certified, support and administrative personnel, as required by Oklahoma Statutes. (Reference: 70 O.S. § 5-123 and Attorney General's Opinion No. 82-62, dated 3-3-82)

Purchase Orders 2020-3

Purchase orders were used in accordance with Oklahoma Statutes, however, there were several areas of concern which are as follows: purchase orders were not being signed as approved by either the purchasing agent or encumbrance clerk, many purchase orders did not have any supporting documentation attached, invoices that were included were not signed always as received, and most purchase orders had invoice dates prior to the purchase order date. These items appear to be pervasive throughout the purchasing cycle. We recommend that the School review/enforce its policies and procedures which address the above items as required by Oklahoma Statutes (Reference: 70 O.S. § 5-135 C, D, E, F and G)

The following section contains the observations relayed to management that are immaterial deficiencies, which we feel need to be communicated to you so appropriate action may be taken to correct these deficiencies. These deficiencies could evolve into material findings if not addressed.

Board Minutes

During our review of the board minutes we made the following observations:

- We observed that the minutes were not signed as approved by a majority of the board members present. Although this procedure is not required by Statute, We recommend this procedure be implemented in order to document board of education approval of all official minutes.
- We observed some special meetings that were listed as “emergency meetings”. An emergency meeting can only be called for specific circumstances that involve ‘injury to persons or damage to public or personal property’ or ‘immediate financial loss’. This is normally reserved for weather incidents that damage school buildings or for vehicle accidents. If action is required by the board between regular meetings, a special meeting should be called, and an agenda posted 48 hours before the meeting date/time.
- We observed that the purchase orders approved were not listed in the minutes. We recommend that the numbers of the purchase orders being approved at each monthly meeting be listed in the minutes, and as an attachment to the minutes, e.g., general fund purchase order numbers 26-87 and building fund purchase order numbers 5-10, as well as the total dollar amount approved for each fund.

- We observed that the School did not provide written notice to the Oklahoma County Clerk a list of regular board meeting dates for calendar year 2019 and 2020 before the December 15 deadline. We recommend that a list of regularly scheduled board meetings be submitted to the County Clerk each calendar year before December 15.
- We observed that the agendas did not state the date, time and place where the agenda was posted, therefore we were unable to determine if the agenda was posted 24 hours prior to meeting. We recommend that the time, date and place that the agenda is posted be specifically stated in the agenda.

We also recommend that the School begin to maintain an official set of minutes that would include, for each meeting, the agenda, the approved minutes, and any pertinent attachments, such as the approved list of purchase orders, financial reports, any approved agreements or contracts etc.. Also, we recommend that the board be mindful that they should not take action on any item under 'New Business' and when/if the board decides to enter into an executive session, that the statutory reference for why they are going into executive session be recorded. It is noted that board minutes were greatly improved upon during the 2020-21 fiscal year.

Expenditures

1. We noted that in the beginning of School operations, the School almost exclusively used a bank debit card to make purchases. We recommend that the encumbrance procedure for expending funds be used in all cases where goods or services are purchased by the School. If a debit/credit card must be used, it should be referenced with a purchase order number, and include proper itemized receipts.
2. We noted some general fund and activity fund checks issued to Bank 2. We recommend that no purchase order or check ever be issued to a bank or to 'cash'. The proper procedure for obtaining change for an event is to issue a check to the individual (sponsor) responsible for returning the change and the event gate collections. Any purchase orders for debit card use should be issued to the actual vendor, and can include a 'dual vendor' option where both the credit card company and the vendor are noted.
3. Activity fund expenditures did not have adequate supporting documentation. All checks issued from the activity fund should have an original, itemized receipt, and the person responsible for the purchase should sign or initial the invoice to indicate receipt. Also, all activity fund checks should be signed by two individuals, normally the activity fund custodian and the principal/director.

4. We observed during the audit that several purchase orders for travel, meals and lodging did not provide sufficient detail as to the purposes for the reimbursements. we recommend that claims for reimbursement for travel, meals and lodging provide the proper itemization and documentation, as required by the State Department of Education:

A. Proper itemization shall include the following:

1. dates entering and ending travel status;
2. points of travel;
3. mileage to and from destination(s) when personally owned vehicle is used;
4. amount per mile reimbursed;
5. air, bus or train fares when public transportation is used;
6. parking fees, taxi fares, car rentals and turnpike fees;
7. meals or per diem rate established by the board of education;
8. registration fees and meeting expenses;
9. motel and hotel expense;
10. other school business expenses such as telephone calls, tips, etc., which properly occur during the time and claimant is in travel status.

B. Proper documentation shall consist of receipts to be attached to the travel claim for the following items listed thereon:

1. air, bus or train fares and car rentals;
2. meals, unless payment is made on a per diem basis established by the board;
3. hotel or motel accommodations;
4. other travel related expenses when applicable;
5. registration fees and meeting expenses.

We also recommend that more detailed support be maintained for travel expenses (e.g., an explanation regarding the purpose of both the trip and of the expenditures, which employee or board member's meals are being purchased, etc.), as required by the State Department of Education.

Surety Bonds

It appears that surety bond coverage was not obtained for the superintendent, encumbrance clerk, minutes clerk, activity fund custodian, or the treasurer during the 2019-20 fiscal year, as required by Oklahoma Statutes. We recommend that surety bond coverage be obtained as soon as possible for all custodial positions, with each position stating the name of the person that is covered and the required amount of coverage. (Reference: 70 O.S. § 5-129)

Child Nutrition Operations

We noted that food was being purchased, prepared and served to the students during the normal school day. We recommend that the School contact the Oklahoma State Department of Education's Child Nutrition Department and discuss serving meals to students, in order to ensure that proper guidelines and procedures are being followed. Additionally, the School may be allowed to claim these meals served, and receive reimbursement from state and local sources.

PPP Loan

We noted that the School applied for a \$102,500 loan from the Small Business Administration (SBA) through the Paycheck Protection Program (PPP). This loan will be required to be paid to Arvest Bank starting in the 2020-21 fiscal year unless forgiveness of the balance owed can be granted from the SBA. We recommend that steps be taken to justify the expenses made using these loan proceeds, and forgiveness be sought as soon as possible on this debt.

You are a new school, and we understand that it will take some time to get all your policies and procedures in place and educate your staff on the proper methods to conduct business as a school district. We recommend that you contact the Oklahoma State School Board Association (OSSBA) and consider subscribing to their policy manual service. They can help you draft policies and procedures for your School that can make this learning time much easier. We also wanted to point out that we noted considerable improvement in the record keeping and documentation from the beginning of the 2019-20 fiscal year to the end of the fiscal year. It will take time to get everything in place, but we look forward to your continued improvement.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,



Eric M. Bledsoe

For

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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December 23, 2020

The Honorable Board of Education
Sovereign Community School District No. J-4
Oklahoma City, Oklahoma County, Oklahoma

We have audited the financial statements of Sovereign Community School District No. J-4, Oklahoma County, Oklahoma, a School, for the year ended June 30, 2020, and have issued our report thereon dated December 23, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 3, 2020, our responsibility, as described the professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compilation with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis of our opinion, it does not provide a legal determination on the School's compliance with those requirements.

We are responsible for communicating significant matters related to the audit that are, in our professional opinion, relevant to your responsibilities in overseeing the financial reporting process. However, are not required to design procedures specifically to identify such matters.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sovereign Community School District No. J-4, Oklahoma County, Oklahoma, are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. We encountered no accounting estimates that are particularly sensitive because of their

significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any. These have been provided to management as adjusting journal entries during fieldwork. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 23, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. Audit findings were reported in the schedule of findings and responses within the audit report. Also, additional comments were made and were reported in the management letter.

This information is intended solely for the use of the management of the School and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 23, 2020

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP
P.O. Box 1310
Broken Arrow, Oklahoma 74013-1310

This representation letter is provided in connection with your audit of the combined financial statements-regulatory basis of Sovereign Community School District No. J-4 (the District), Oklahoma County, Oklahoma, as of June 30, 2020, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the combined financial statements-regulatory basis present fairly, in all material respects, in accordance with the regulatory requirements of the Oklahoma State Department of Education and accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatements of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable persons relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 23, 2020, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 3, 2020, including our responsibility for the preparation and fair presentation of the financial statements-regulatory basis in accordance with the regulatory requirements of the Oklahoma state Department of Education.
2. The financial statements-regulatory basis referred to above are fairly presented and include all properly classified funds and other financial information of the primary government required by the Oklahoma State Department of Education.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Related party relationships and transactions, including revenues, expenditures/expenses, transfers and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
6. Adjustments or disclosures have been made for all events, including instances of non-compliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial.
7. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed if could result in a liability to the District.

Information Provided

8. We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the school district from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the Board of Education meetings and/or summaries of actions of recent meetings for which minutes have not yet been prepared.
9. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

11. We have no knowledge of any fraud or suspected fraud that affects the school district and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the school district's financial statements communicated by employees, former employees, regulators, or others.
13. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
14. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
15. We have disclosed to you the identity of the school district's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

16. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
17. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us, if any.
18. We have a process to track the status of audit findings and recommendation, if any.
19. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
20. We have provided our views on reported findings, conclusions, and recommendation, as well as our planned corrective actions, for the report, if any.

21. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, and legal and contractual provisions for reporting specific activities in separate funds.
22. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
23. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
24. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
25. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
26. As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We acknowledge our responsibility as it relates to those nonaudit services including that we assume all management responsibilities; oversee the services by designating an individual, preferable within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
27. The school district has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
28. The school district has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

29. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if applicable.
30. The financial statements properly classify all funds and activities in accordance with regulatory requirements.
31. Components of fund equity (restricted; and unrestricted) are properly classified and, if applicable, approved.
32. Investments and land and other real estate held by the District are properly valued.
33. Expenditures have been appropriately classified in functions codes in the statement of revenues, expenditures and changes in fund balance.
34. Revenues are appropriately classified in the statement of revenues, expenditures and changes in fund balance.
35. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
36. Special and extraordinary items are appropriately classified and reported, if any.
37. Deposits and investment securities are properly classified as to risk and are properly disclosed.
38. Capital assets, including intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
39. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signed: _____

Signed: _____

Title: Superintendent

Title: Board President

Client's
Copy

**FINANCIAL STATEMENTS – REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITOR
SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4,
OKLAHOMA COUNTY, OKLAHOMA**

JUNE 30, 2020

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2020

BOARD OF EDUCATION

President

Kate Sultuska

Vice-President

Sarah Adams Cornell

Board Secretary/Clerk

Jacob Tsotigh

Member

Kyla Molina

SUPERINTENDENT OF SCHOOLS

Matt Wilson

Business Manager

Stacie Thrasher

SCHOOL DISTRICT TREASURER

Jack H. Jenkins, CPA

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Sovereign Community School District No. J-4
Oklahoma County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Sovereign Community School District No. J-4, Oklahoma County, Oklahoma (the School), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the Oklahoma State Department of Education to meet financial reporting requirements of the State of Oklahoma; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1, the financial statements are prepared by the School, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The financial statements referred to above do not include the general fixed asset account group, which is a departure from the regulatory basis of accounting prescribed by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the School as of June 30, 2020, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School’s basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Oklahoma State Department of Education and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements – regulatory basis and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020, on our consideration of the School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 23, 2020



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Board of Education
Sovereign Community School District No. J-4
Oklahoma County, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying fund type and account group financial statements – regulatory basis within the combined financial statements of the Sovereign Community School District Number J-4, Oklahoma County, Oklahoma (School), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the School's financial statements, and have issued our report thereon dated December 23, 2020, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School's internal control. Accordingly, we do not express an opinion on the effectiveness of School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit results that we consider to be material weaknesses, as items 2020-1, 2020-2 and 2020-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of audit results as items 2020-2 and 2020-3.

School's Response to Findings

The School's response to the findings identified in our audit are described in the attached corrective action plan. The School's responses were not subjected to the auditing procedures applied in the audit on the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 23, 2020

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2020

There were no prior year significant deficiencies. The School began operations in the 2019-20 fiscal year.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF AUDIT RESULTS
JUNE 30, 2020

Section 1 - Summary of Auditor's Results:

1. An adverse opinion was issued on the combined financial statements in conformity with generally accepted accounting principles, and a qualified opinion was issued for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education.
2. The audit disclosed three significant deficiencies in the internal controls over financial reporting (items 2020-1, 2020-2 and 2020-3) which were considered to be material weaknesses.
3. The audit disclosed two instances of noncompliance (items 2020-2 and 2020-3) which were not considered to be material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

FINDING 2020-1

Condition: The School has a lack of segregation of duties resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting, currently in the functions for payroll and accounts payable.

Criteria: A good system of internal control would provide for the proper segregation of duties over entering information, processing information, and reconciling.

Cause / Effect: Due to a limited number of personnel available to perform the various accounting functions, there is an increased risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: Although this is an ongoing issue in small school districts, we recommend that board implement procedures to segregate key accounting functions and determine the cost effectiveness of the possible hiring/assigning of personnel to help better segregate accounting functions. This may include having board members or other employees take part in the review and reconciliation of selected information.

FINDING 2020-2

Condition: The 2019-20 fiscal year employment contracts for certified and support personnel could not be located for our examination during our visit.

Criteria: Employment contracts must be prepared for all certified, support and administrative personnel, as required by Oklahoma Statutes, and kept on file for examination. (Reference: 70 O.S. § 5-123 and Attorney General's Opinion No. 82-62, dated 3-3-82)

Cause / Effect: Due to a limited number of personnel available to perform the various accounting functions, the District was not able to adequately forecast their expenditures and related cash needs, therefore having to expend current obligations in the subsequent fiscal year.

Recommendation: We recommend that all School certified and support personnel be issued a written employment contract each fiscal year. The contract should be signed by the employee and by a board representative, and state all the terms and amounts agreed upon by both parties. All employment contracts should be presented and approved by the Board of Education at the beginning of each fiscal year. Any new personnel hired during a fiscal year should have their contract approved by the Board and signed by both parties prior to employment. A copy of all employment contracts should be kept on file for examination.

FINDING 2020-3

Condition:

Purchase orders were used in accordance with Oklahoma Statutes, however, there were several areas of concern which are as follows: purchase orders were not being signed by either the purchasing agent or the encumbrance clerk, many purchase orders did not have any supporting documentation attached, invoices that were included were not always signed as received, and most purchase orders had invoice dates prior to the encumbrance dates. These items appear to be pervasive throughout the purchasing cycle.

Criteria: Oklahoma Statutes require that Boards prescribe and administer adequate policies and procedures governing the purchase of goods or services of the School. (Reference: 70 O.S. § 1-135)

Cause / Effect: Proper procedures were not in place over the accounts payable function for the general fund purchases. This increases that risk that a misappropriation of assets will occur and not be detected whether due to error or fraud. Improper encumbering procedures can also lead to legal appropriations being exceeded.

Recommendation: We recommend that the School enforce state law and its policies and procedures which require proper approval of the expenditure, original documentation be obtained, invoices be signed as received, the face of the purchase order reflect the total amount actually paid, and the check number(s) be recorded on the purchase order.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES -
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
 JUNE 30, 2020

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL FUND	AGENCY FUNDS	GENERAL LONG-TERM DEBT	
<u>ASSETS</u>				
Cash	\$ 33,971	100		34,071
Amount to be provided for retirement of long-term debt			102,500	102,500
Total Assets	<u>\$ 33,971</u>	<u>100</u>	<u>102,500</u>	<u>136,571</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Warrants payable	\$ 12,734			12,734
Encumbrances	425			425
Funds held for school organizations		100		100
Long-term debt:				
Loans payable			102,500	102,500
Total liabilities	<u>13,159</u>	<u>100</u>	<u>102,500</u>	<u>115,759</u>
Fund Balances:				
Unassigned	20,812			20,812
Fund balances	<u>20,812</u>	<u>0</u>	<u>0</u>	<u>20,812</u>
Total Liabilities and Fund Equity	<u>\$ 33,971</u>	<u>100</u>	<u>102,500</u>	<u>136,571</u>

The notes to the combined financial statements are an integral part of this statement

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN
 CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2020

	GOVERNMENTAL FUND TYPES
	GENERAL FUND
Revenues Collected:	
Local sources	510,643
State sources	252,279
Federal sources	200,436
Non-revenue receipts	18,135
Total revenues collected	<u>981,493</u>
Expenditures:	
Instruction	408,476
Support services	559,609
Operation of non-instructional services	20,497
Other Outlays:	
Correcting entry	145
Total expenditures	<u>988,727</u>
Excess of revenues collected over (under) expenditures	(7,234)
Other financing sources (uses):	
Operating transfers in/(out)	<u>28,046</u>
Excess of revenues collected and other financing sources over (under) expenditures and other financing uses	20,812
Cash fund balances, beginning of year	<u>0</u>
Cash fund balances, end of year	<u>\$ 20,812</u>

The notes to the combined financial statements are an integral part of this statement

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2020

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 203,685	306,285	510,643	204,358
State sources	526,046	526,046	252,279	(273,767)
Federal sources	651,058	651,058	200,436	(450,622)
Non-revenue receipts			18,135	18,135
Total revenues collected	<u>1,380,789</u>	<u>1,483,389</u>	<u>981,493</u>	<u>(501,896)</u>
Expenditures:				
Instruction	639,980	639,980	408,476	231,504
Support services	559,609	559,609	559,609	0
Operation of non-instruction services	20,497	20,497	20,497	0
Other outlays:				
Correcting entry	145	102,745	145	102,600
Total expenditures	<u>1,220,231</u>	<u>1,322,831</u>	<u>988,727</u>	<u>334,104</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	160,558	160,558	(7,234)	(167,792)
Other financing sources (uses):				
Operating transfers in (out)	<u>0</u>	<u>0</u>	<u>28,046</u>	<u>28,046</u>
Excess of revenues collected and other financing sources over (under) expenditures and other financing uses	160,558	160,558	20,812	(139,746)
Cash fund balance, beginning of year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 160,558</u>	<u>160,558</u>	<u>20,812</u>	<u>(139,746)</u>

The notes to the combined financial statements are an integral part of this statement

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Sovereign Community School District No. J-4 (the "School"), have been prepared in conformity with another comprehensive basis of accounting prescribed by the Oklahoma State Department of Education as authorized by Oklahoma Statutes. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with the accounting principles generally accepted in the United States of America. The School's accounting policies are described in the following notes that are an integral part of the School's financial statements.

A. Reporting Entity

Sovereign Community School Foundation, an Oklahoma not-for profit corporation described in Internal Revenue Code Section 501(c)(3), was formed for the benefit of a school to be called Sovereign Community Charter School. The School operates under provisions of the Oklahoma Charter Schools Act through a contract with the Oklahoma State Board of Education as its sponsoring school. Approval was granted by the Oklahoma State Department of Education and School student operations began in August 2019. The School is also a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The School is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the School is the Board of Education composed of nine appointed members. The appointed Head of School is the executive officer of the School.

In evaluating how to define the School, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

A. Reporting Entity – cont'd

units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School and/or its citizens, or whether the activity is conducted within the geographic boundaries of the School and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the School's reporting entity.

B. Measurement Focus

The School uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: Governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

General Fund – The general fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include state and local property taxes and state funding under the Foundation and Incentive Aid Program. Expenditures include all costs associated with the daily operations of the School except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund includes federal and state restricted monies that must be expended for specific programs.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

B. Measurement Focus - cont’d

Special Revenue Funds – Special revenue funds account for revenue sources that are restricted to expenditures for specific purposes. The special revenue funds for the School typically include the child nutrition funds.

Child Nutrition Fund - The child nutrition fund consists of monies derived from federal and state financial assistance and food sales. This fund is used to account for the various nutrition programs provided to students. The School operates their child nutrition program within the general fund.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the School. The terms “non-expendable” and “expendable” refer to whether or not the School is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the School holds on behalf of others as their agent and do not involve measurement of results of operation.

Expendable Trust Funds – Expendable trust funds typically include the gifts and endowments fund. The School did not operate an expendable trust fund during the 2019-20 fiscal year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the School.

Agency Fund – The agency fund is the school’s student activity funds, which is used to account for monies collected principally through the fundraising efforts of students and school-sponsored groups. The administration is responsible, under the authority of the Board, for collecting, disbursing and accounting for these activity funds.

Account Groups

An account group is not a fund and consists of a self-balancing set of accounts used only to establish accounting control over long-term debt and fixed assets.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

B. Measurement Focus - cont’d

Memorandum Only - Total Column

The total column on the combined financial statements – regulatory basis is captioned “memorandum only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with accounting principles generally accepted in the United States. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting and Presentation

The School prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis for State and Local Governments* with certain modifications. This format differs significantly from that required by GASB 34.

The financial statements are essentially prepared on the basis of cash receipts and disbursements modified as required by the regulations of the Oklahoma State Department of Education as follows:

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Inventories of school supplies are recorded as expenditures and not as inventory assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded in the General Long-Term Debt Account Group and not in the basic financial statements.
- Compensated absences are recorded as expenditures when paid and not recorded as a liability.
- Fixed assets are recorded in the General Fixed Asset Account Group and not in the basic financial statements. Fixed assets are not depreciated.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types; and, when revenues are earned.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting and Presentation – cont'd

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental type funds are accounted for using the regulatory basis of accounting. Revenues are recognized when they are received rather than earned and expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred. These practices differ from accounting principles generally accepted in the United States.

D. Budgets and Budgetary Accounting

The School is required by state law to prepare an annual budget. The Board of Education must request an initial temporary appropriations budget from their county excise board before June 30. The School uses the temporary appropriation amounts as their legal expenditure limit until the annual estimate of needs is completed.

A budget is legally adopted by the Board of Education for all funds (with the exception of the trust and agency funds) that includes revenues and expenditures. No later than October 1, each board of education shall prepare a financial statement and estimate of needs to be filed with the applicable county clerk and the State Department of Education.

The 2019-20 Estimate of Needs was amended by supplemental appropriations as follows:

<u>Fund</u>	<u>Total</u>
General	\$ 102,600

These amendments were approved by the county excise board.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the School. Unencumbered appropriations lapse at the end of each fiscal year. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is presented in the financial statements, although the board can exercise no control of the revenue sources for this fund (except interest earnings), and no control over its expenditures.

E. Assets, Liabilities and Fund Equity

Cash and cash equivalents – The School considers all cash on hand, demand deposit accounts, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

E. Assets, Liabilities and Fund Equity – cont'd

Investments – The School considers investments of direct obligations of the United States government and agencies, certificates of deposits, savings accounts or savings certificates with maturities of greater than three months. All investments are recorded at cost, which approximates market value.

Inventories – The value of consumable inventories at June 30, 2020 is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The School has not maintained a record of general fixed assets, and, accordingly, a General Fixed Assets Account Group required by the regulatory basis of accounting prescribed by the Oklahoma State Department of Education is not included in the financial statements. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

Warrants Payable – Warrants are issued to meet the obligations for goods and services provided to the School. The School recognizes a liability for the amount of outstanding warrants that have yet to be redeemed by the School's treasurer.

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the School for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting. While the regulatory basis that is used for the Debt Service Fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

Compensated Absences – The School provides vacation and sick leave benefits in accordance with Title 70 of the Oklahoma Statutes, Article 6-104, which provides for annual sick leave and personal business days. School policy allows certified employees to accumulate such days to a maximum number of days. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources had not been reported as an expenditure of the governmental fund that will pay it since the financial statements have been prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

Funds Held for School Organizations – Funds held for school organizations represent the funds received or collected from students or other cocurricular and extracurricular activities conducted in the School, control over which is exercised by the board of education. These funds are credited to the account maintained for the benefit of each particular activity within the school activity fund.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

E. Assets, Liabilities and Fund Equity – cont'd

Long-Term Debt – Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Fund Balance – In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amount in the spendable fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment.

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purposes in accordance with the provisions of the standard.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

E. Assets, Liabilities and Fund Equity – cont'd

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

F. Revenue and Expenditures

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the School and available to the School for its use. The School is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within the School. These property taxes are distributed to the School's general, building and sinking funds based on the levies approved for each fund. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax rolls for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1. If the first payment is not made in a timely manner, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1, of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property. Other local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

Intermediate Revenues - Revenue from intermediate sources is the amount of money from funds collected by an intermediate administrative unit, or a political subdivision between the School and the state, and distributed to Schools in amounts that differ in proportion to those which are collected within such systems.

State Revenues – Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the Schools.

After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are treated as reductions from or additions to the revenue of the year when the adjustment is made.

The School receives revenue from the state to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund.

Federal Revenues – Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a passthrough from another government, such as the state. Entitlement is the amount of payment to which the School is entitled pursuant to an allocation formula contained in applicable statutes. The majority of the federal revenues received by the School are apportioned to the general fund.

Non-Monetary Transactions – The School receives commodities from the U.S. Department of Agriculture. The value of these commodities has been included in the Schedule of Expenditures of Federal Awards; however, they have not been included in the financial statements as either revenue or expense since they are not reported under the regulatory basis of accounting.

Interest Earnings – Represent compensation for the use of financial sources over a period of time.

Non-Revenue Receipts – Non-revenue receipts represent receipts deposited into a fund that are not new revenues to the School, but the return of assets.

Instruction Expenditures – Instruction expenditures include the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location, such as a home or hospital, and in other learning situations, such as those involving cocurricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Included here are the activities of teacher assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process. The activities of tutors, translators and interpreters would be recorded here. Department chairpersons who teach for any portion of time are included here. Tuition/transfer fees paid to other LEAs would be included here.

Support Services Expenditures – Support services expenditures provide administrative, technical (such as guidance and health) and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services and enterprise programs, rather than as entities within themselves.

Operation of Non-Instructional Services Expenditures – Activities concerned with providing non-instructional services to students, staff or the community.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

F. Revenue and Expenditures – cont’d

Facilities Acquisition and Construction Services Expenditures – Consists of activities involved with the acquisition of land and buildings; remodeling buildings; the construction of buildings and additions to buildings; initial installation or extension of service systems and other built-in equipment; and improvements to sites.

Other Outlays Expenditures – A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified as Other Outlays. These include debt service payments (principal and interest).

Other Uses Expenditures – This includes scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditures for self-funded employee benefit programs administered either by the School or a third party administrator.

Repayment Expenditures – Repayment expenditures represent checks/warrants issued to outside agencies for refund or restricted revenue previously received for overpayment, non-qualified expenditures and other refunds to be repaid from School funds.

Interfund Transactions – Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no interfund transfers made during the 2019-20 fiscal year.

2. CASH AND INVESTMENTS

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School’s deposits may not be returned to the School. The School’s cash deposits and investments at June 30, 2020, were \$34,071 at financial institutions, and were completely insured or collateralized by federal depository insurance, direct obligations of the U.S. Government, or securities held by the School or by its agent in the School’s name.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

2. CASH AND INVESTMENTS – cont'd

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Due to the required liquidity for those investments, these funds have no defined maturity dates. The School does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investment Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The School does not have a formal policy limiting its investment choices, other than the limitation of state law as follows:

- Direct obligations of the U.S. Government, its agencies and instrument to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- County, municipal or school School tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous bullet items.

Concentration of Investment Credit Risk – The School places no limit on the amount it may invest in any one issuer.

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2020.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

4. GENERAL LONG-TERM DEBT

On April 30, 2020 the School executed a promissory note for \$102,500 under the Paycheck Protection Program (PPP) authorized by the Coronavirus Aid Relief and Economic Security Act (CARES Act). The loan bears an interest rate of 1.00%. Under the PPP, loan funds are eligible for forgiveness to the extent that they are used to cover certain payroll, rent, and utility costs and if certain employment levels are maintained during a specified period of time. If the Small Business Administration (SBA) confirms full forgiveness of the unpaid balance of the note, the School's obligation under the arrangement will be deemed fully satisfied. The loan was facilitated through Arvest Bank.

The School remains obligated to repay the lender any amount not forgiven, which will mature on the 2nd anniversary of the note. Principal and interest payments are deferred until the lender receives a forgiveness determination from the SBA. If the School does not apply for forgiveness within 10 months after the last day of the covered period, as applicable, it would be required to make payments on the PPP loan beginning 10 months after the last day of such covered period. At such time, the bank will establish the amount of monthly payments due based on the remaining time until maturity.

As of June 30, 2020, the proceeds from the PPP loan are shown in the general fund as local revenue receipts on the Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances and as the long-term debt account group on the Statement of Assets, Liabilities and Fund Balance. Should the PPP loan be forgiven, the proceeds will be recognized in the year of forgiveness and the liability will be removed from the financial statements.

5. EMPLOYEE RETIREMENT SYSTEM

The School chose not to participate in the Oklahoma Teacher's Retirement System (the "System") for the 2019-20 fiscal year. However, in 2019-20, the School Board approved participation in the System for the 2020-21 fiscal year and beyond.

Description of Plan

The state-administered Oklahoma Teachers' Retirement System, which is a cost sharing, multiple-employer defined benefit public employee retirement system (PERS), which is administered by the Board of Trustees of the Oklahoma Teachers' Retirement System. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, OK 73152, or by calling 405-521-2387.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

5. EMPLOYEE RETIREMENT SYSTEM – cont'd

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The School, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the School and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2019-20 fiscal year, the School contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The School is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, if a member's salary is paid in part by federal or private funds, the contribution on that portion of the salary paid by those funds must be matched by the School at 7.70%.

Annual Pension Cost

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2020. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit www.ok.gov/TRS for all plan information.

GASB Statement 68 became effective for fiscal years beginning after June 15, 2014, and significantly changes pension accounting and financial reporting for governmental employers who participate in a pension plan, such as the System, and who prepare published financial statements on an accrual basis using Generally Accepted Accounting Principles. Since the School does not prepare and present their financial statements on an accrual basis, the net pension amount is not required to be presented on the audited financial statements.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

6. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The School purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

7. CONTINGENCIES

Federal Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the School during the 2019-20 fiscal year. The revised Uniform Guidance Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expended more than \$750,000 in federal awards.

The School did not fall under this threshold for the 2019-20 fiscal year, therefore, this schedule is not required and is for informational purposes only.

Litigation

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the School.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2020

	BALANCE 7-1-19	ADDITIONS	NET TRANSFERS/ ADJUSTMENTS	DEDUCTIONS	BALANCE 6-30-20
<u>ASSETS</u>					
Cash	\$ 0	30,639	(28,046)	2,493	100
<u>LIABILITIES</u>					
Funds held for school organizations:					
General activity	\$ 0	30,639	(28,046)	2,493	100

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2020

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Program or Award Amount</u>	<u>Balance at 7/1/2019</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>	<u>Balance at 6/30/2020</u>
<u>U.S. Department of Education</u>							
<u>Passed Through Oklahoma Public Schools Resource Center:</u>							
Charter School Program Grant	84.282	771	<u>\$ 600,000</u>	<u>0</u>	<u>200,436</u>	<u>327,363</u>	<u>126,927</u>

Note 1 - Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal activity of the District for the year ended June 30, 2020. This information is presented on another comprehensive basis of accounting conforming with the accounting practices prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles. Because the schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies - Expenditures reported on this schedule are reported on the regulatory basis of accounting consistent with the preparation of the combined financial statements. Expenditures are recognized when an approved purchase order is issued.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2020

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
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NO SURETY BONDS WERE OBTAINED BY THE DISTRICT FOR THE 2019-20 FISCAL YEAR.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2019 TO JUNE 30, 2020

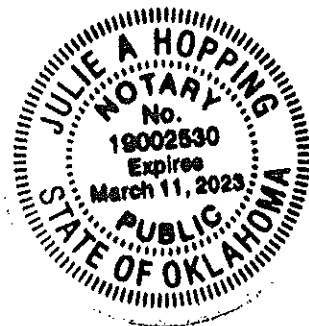
State of Oklahoma)
) ss
County of Tulsa)

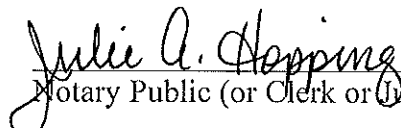
The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Sovereign Community School for the audit year 2019-20.

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP
Auditing Firm

By 
Authorized Agent

Subscribed and sworn to before me
This 18th day of December, 2020




Notary Public (or Clerk or Judge)

My Commission Expires: 3/11/2023
Commission No. 19002530



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

December 23, 2020

Mr. Matt Wilson, Supt.
Sovereign Community School District
12600 N. Kelley Avenue
Oklahoma City, Oklahoma 73131

Dear Mr. Wilson

Listed below are control deficiencies and recommendations from the final audit work we performed for you. Any material weaknesses are listed within your audit report. Please review them very carefully, along with the review copy of your audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

The following section contains the significant deficiencies which will be included in your audit report as material weaknesses in internal controls and non-compliance with laws and regulations based on an audit of financial statements.

Segregation of Duties 2020-1

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions which is necessary in order to assure adequate internal accounting controls, specifically in the payroll, accounts payable, and treasurer areas. This is always an issue in small size school districts, especially in the areas of cash collections, disbursements and reconciliation.

Employment Contracts 2020-2

We observed during the audit that there were no contracts prepared for administrative or support personnel as none were presented for audit. We recommend that contracts be prepared for all certified, support and administrative personnel, as required by Oklahoma Statutes. (Reference: 70 O.S. § 5-123 and Attorney General's Opinion No. 82-62, dated 3-3-82)

Purchase Orders 2020-3

Purchase orders were used in accordance with Oklahoma Statutes, however, there were several areas of concern which are as follows: purchase orders were not being signed as approved by either the purchasing agent or encumbrance clerk, many purchase orders did not have any supporting documentation attached, invoices that were included were not signed always as received, and most purchase orders had invoice dates prior to the purchase order date. These items appear to be pervasive throughout the purchasing cycle. We recommend that the School review/enforce its policies and procedures which address the above items as required by Oklahoma Statutes (Reference: 70 O.S. § 5-135 C, D, E, F and G)

The following section contains the observations relayed to management that are immaterial deficiencies, which we feel need to be communicated to you so appropriate action may be taken to correct these deficiencies. These deficiencies could evolve into material findings if not addressed.

Board Minutes

During our review of the board minutes we made the following observations:

- We observed that the minutes were not signed as approved by a majority of the board members present. Although this procedure is not required by Statute, We recommend this procedure be implemented in order to document board of education approval of all official minutes.
- We observed some special meetings that were listed as “emergency meetings”. An emergency meeting can only be called for specific circumstances that involve ‘injury to persons or damage to public or personal property’ or ‘immediate financial loss’. This is normally reserved for weather incidents that damage school buildings or for vehicle accidents. If action is required by the board between regular meetings, a special meeting should be called, and an agenda posted 48 hours before the meeting date/time.
- We observed that the purchase orders approved were not listed in the minutes. We recommend that the numbers of the purchase orders being approved at each monthly meeting be listed in the minutes, and as an attachment to the minutes, e.g., general fund purchase order numbers 26-87 and building fund purchase order numbers 5-10, as well as the total dollar amount approved for each fund.

- We observed that the School did not provide written notice to the Oklahoma County Clerk a list of regular board meeting dates for calendar year 2019 and 2020 before the December 15 deadline. We recommend that a list of regularly scheduled board meetings be submitted to the County Clerk each calendar year before December 15.
- We observed that the agendas did not state the date, time and place where the agenda was posted, therefore we were unable to determine if the agenda was posted 24 hours prior to meeting. We recommend that the time, date and place that the agenda is posted be specifically stated in the agenda.

We also recommend that the School begin to maintain an official set of minutes that would include, for each meeting, the agenda, the approved minutes, and any pertinent attachments, such as the approved list of purchase orders, financial reports, any approved agreements or contracts etc.. Also, we recommend that the board be mindful that they should not take action on any item under 'New Business' and when/if the board decides to enter into an executive session, that the statutory reference for why they are going into executive session be recorded. It is noted that board minutes were greatly improved upon during the 2020-21 fiscal year.

Expenditures

1. We noted that in the beginning of School operations, the School almost exclusively used a bank debit card to make purchases. We recommend that the encumbrance procedure for expending funds be used in all cases where goods or services are purchased by the School. If a debit/credit card must be used, it should be referenced with a purchase order number, and include proper itemized receipts.
2. We noted some general fund and activity fund checks issued to Bank 2. We recommend that no purchase order or check ever be issued to a bank or to 'cash'. The proper procedure for obtaining change for an event is to issue a check to the individual (sponsor) responsible for returning the change and the event gate collections. Any purchase orders for debit card use should be issued to the actual vendor, and can include a 'dual vendor' option where both the credit card company and the vendor are noted.
3. Activity fund expenditures did not have adequate supporting documentation. All checks issued from the activity fund should have an original, itemized receipt, and the person responsible for the purchase should sign or initial the invoice to indicate receipt. Also, all activity fund checks should be signed by two individuals, normally the activity fund custodian and the principal/director.

4. We observed during the audit that several purchase orders for travel, meals and lodging did not provide sufficient detail as to the purposes for the reimbursements. we recommend that claims for reimbursement for travel, meals and lodging provide the proper itemization and documentation, as required by the State Department of Education:

A. Proper itemization shall include the following:

1. dates entering and ending travel status;
2. points of travel;
3. mileage to and from destination(s) when personally owned vehicle is used;
4. amount per mile reimbursed;
5. air, bus or train fares when public transportation is used;
6. parking fees, taxi fares, car rentals and turnpike fees;
7. meals or per diem rate established by the board of education;
8. registration fees and meeting expenses;
9. motel and hotel expense;
10. other school business expenses such as telephone calls, tips, etc., which properly occur during the time and claimant is in travel status.

B. Proper documentation shall consist of receipts to be attached to the travel claim for the following items listed thereon:

1. air, bus or train fares and car rentals;
2. meals, unless payment is made on a per diem basis established by the board;
3. hotel or motel accommodations;
4. other travel related expenses when applicable;
5. registration fees and meeting expenses.

We also recommend that more detailed support be maintained for travel expenses (e.g., an explanation regarding the purpose of both the trip and of the expenditures, which employee or board member's meals are being purchased, etc.), as required by the State Department of Education.

Surety Bonds

It appears that surety bond coverage was not obtained for the superintendent, encumbrance clerk, minutes clerk, activity fund custodian, or the treasurer during the 2019-20 fiscal year, as required by Oklahoma Statutes. We recommend that surety bond coverage be obtained as soon as possible for all custodial positions, with each position stating the name of the person that is covered and the required amount of coverage. (Reference: 70 O.S. § 5-129)

Child Nutrition Operations

We noted that food was being purchased, prepared and served to the students during the normal school day. We recommend that the School contact the Oklahoma State Department of Education's Child Nutrition Department and discuss serving meals to students, in order to ensure that proper guidelines and procedures are being followed. Additionally, the School may be allowed to claim these meals served, and receive reimbursement from state and local sources.

PPP Loan

We noted that the School applied for a \$102,500 loan from the Small Business Administration (SBA) through the Paycheck Protection Program (PPP). This loan will be required to be paid to Arvest Bank starting in the 2020-21 fiscal year unless forgiveness of the balance owed can be granted from the SBA. We recommend that steps be taken to justify the expenses made using these loan proceeds, and forgiveness be sought as soon as possible on this debt.

You are a new school, and we understand that it will take some time to get all your policies and procedures in place and educate your staff on the proper methods to conduct business as a school district. We recommend that you contact the Oklahoma State School Board Association (OSSBA) and consider subscribing to their policy manual service. They can help you draft policies and procedures for your School that can make this learning time much easier. We also wanted to point out that we noted considerable improvement in the record keeping and documentation from the beginning of the 2019-20 fiscal year to the end of the fiscal year. It will take time to get everything in place, but we look forward to your continued improvement.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,



Eric M. Bledsoe

For

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP